The Retirement Choice

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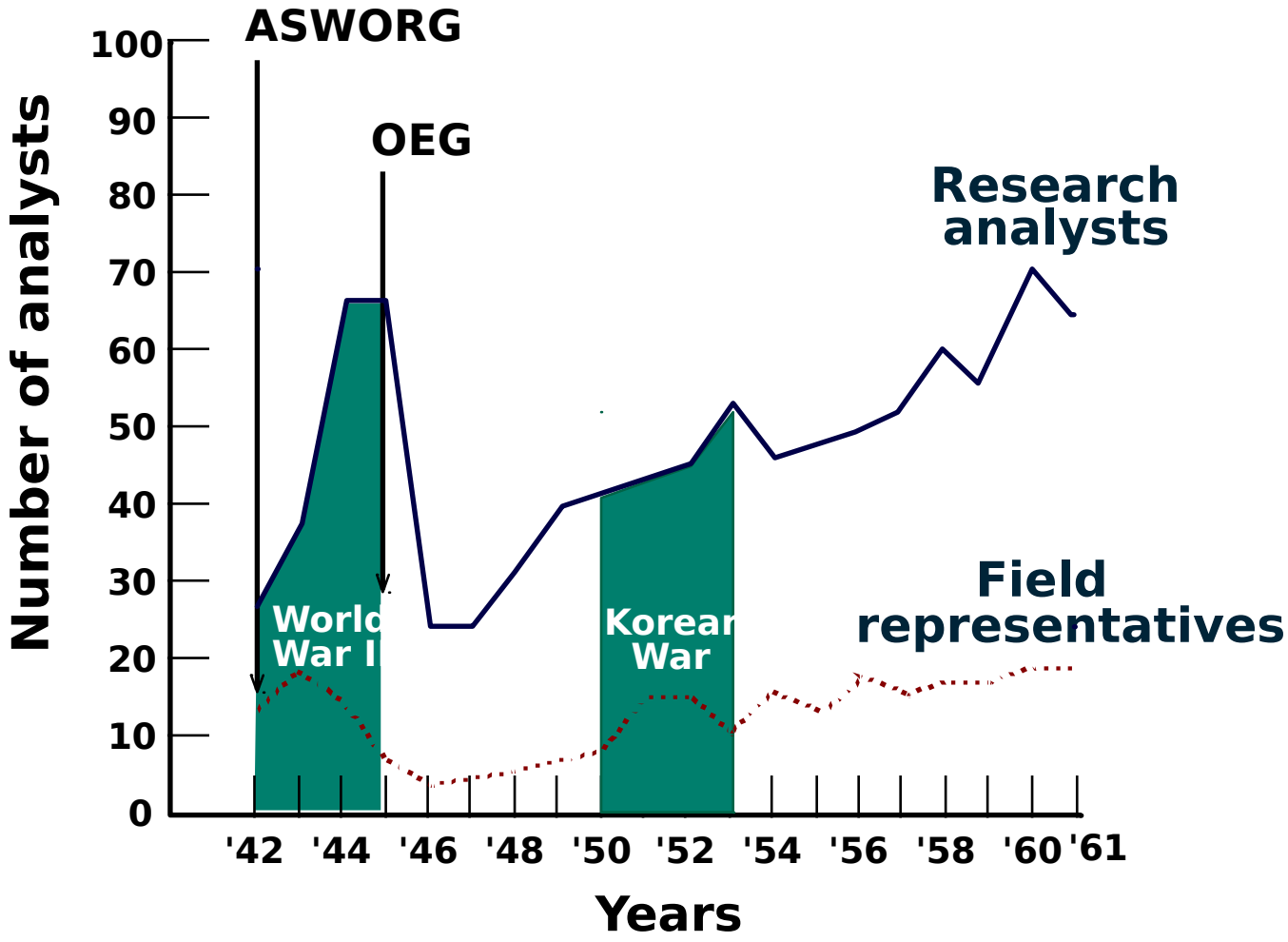
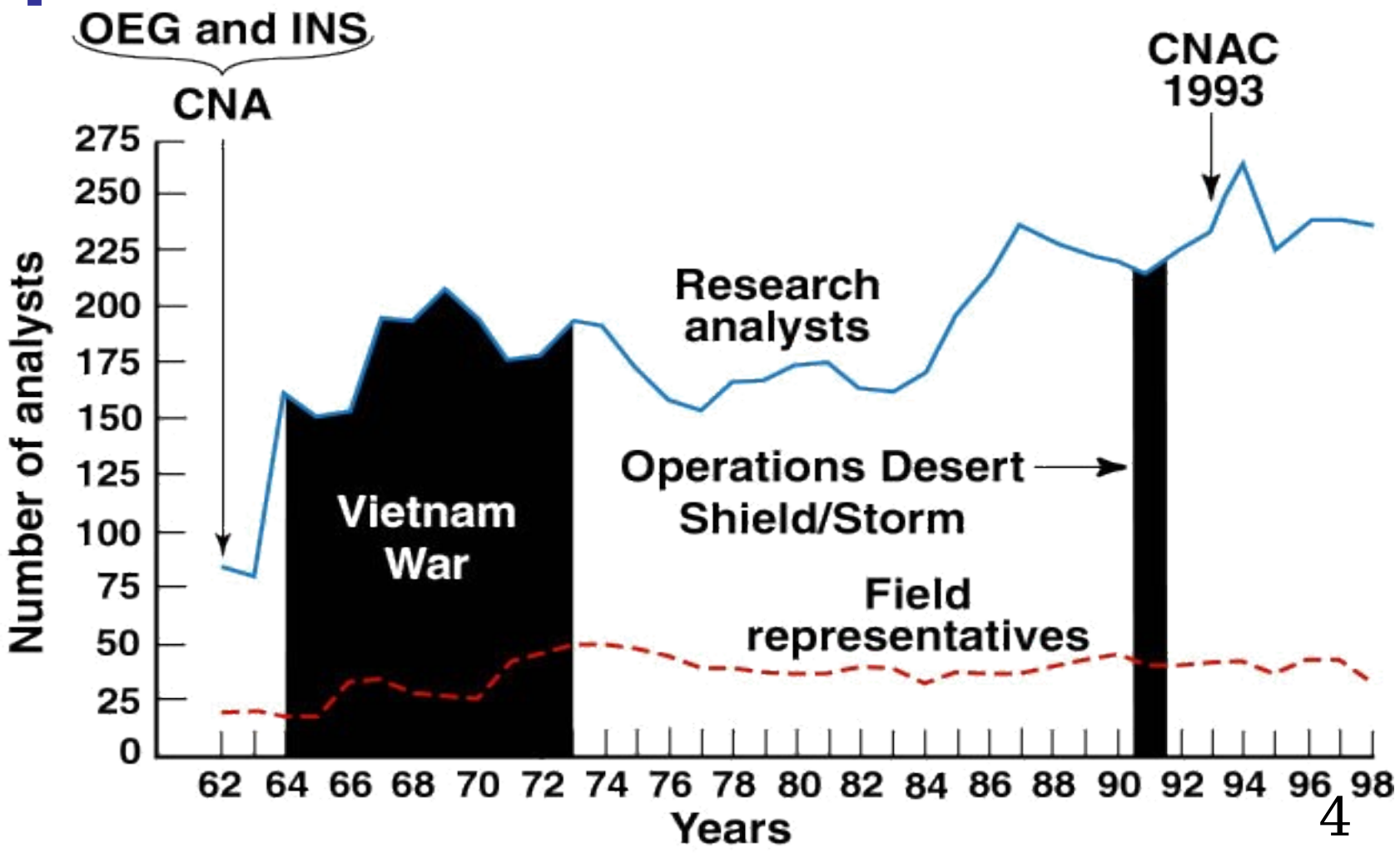
CNA Is An FFRDC

- DoN's Federally-Funded Research and Development Center
  - Characteristics
    - Non-profit
      - Can't compete with private contractors for DoD work
    - Stable, long-term relationships with sponsors
    - Privileged access to information
  - Major emphasis placed on balancing closeness with objectivity

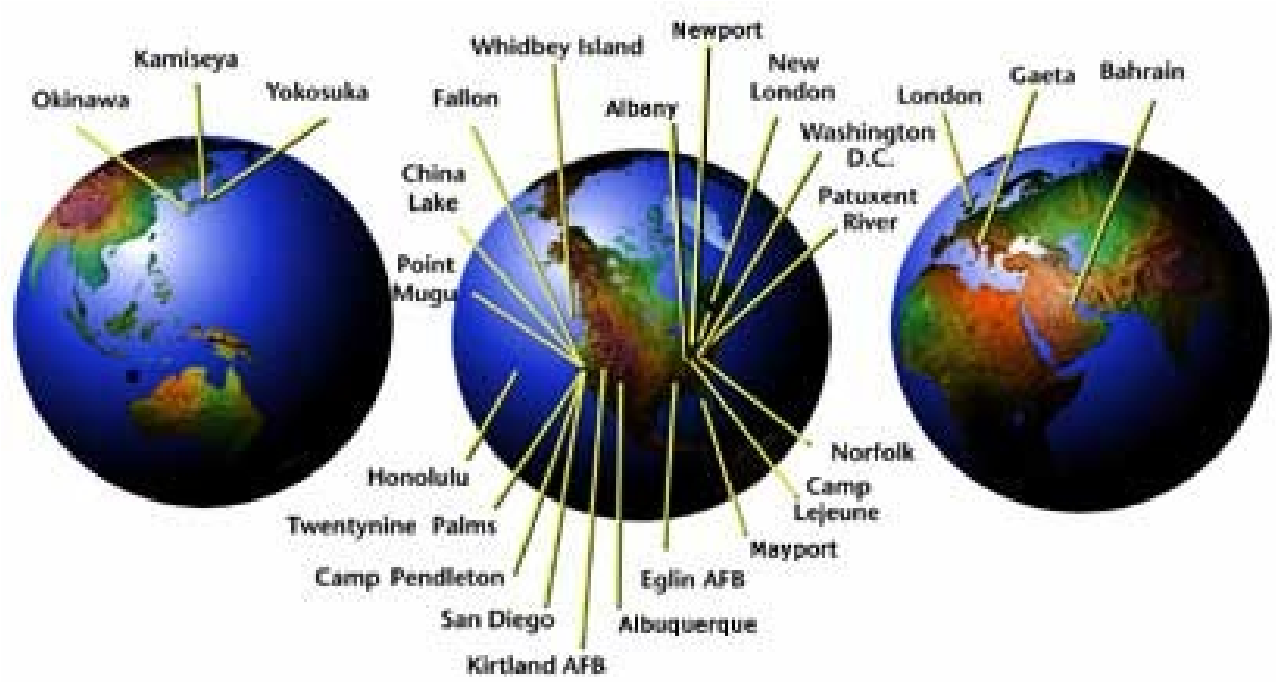
A Brief History, 1942–1961



A Brief History, 1962 - present



Field Billet Locations



SECONDFLT
THIRDFLT
FIFTHFLT
SIXTHFLT
SEVENTHFLT
CARGRU 5

CTF-72
NWDC
VAQWINGPAC
VX-9
VX-1
NAVWARCOL

CINCPACFLT
CINCLANTFLT
NAVSTKAIRWARCEN
TACTRAGRUPAC
CINCUSNAVEUR

PHIBGRU THREE
PHIBGRU TWO
OPTEVFOR
SUBDEVRON 12
BATTLE GROUPS
TACTRAGRULANT

CPATA
F/A-18 E/F
USCINCPAC
USCINCJFCOM
ASCIET
JTMD

II MEF
III MEF
MARFORPAC
MARFORLANT
MAGTFTC
I MEF
MATCOM

Who's Retiring? When?

- Enlisted Marines, about 2,300 each year
  - 65% of them at about 20 years of service
  - Only 11% of them after 25th year of service (less than 100 make 30 years of service)
  - Most are E-7s and E-8s
- Marine Corps officers, about 500 each year
  - 30% at 20 years; 10% at 30+ years of service
  - Ranks are O-5, O-4, and O-6
- Chief warrant officers
  - About 150/year; most at 20 years

Date of Entry into Armed Forces (DEAF)

- Obscure, but critical, date
  - Determines which is *your* retirement plan
  - Is on Statement of Leave & Earnings
- Date first enlisted/commissioned into *any* component of the Armed Forces
  - Has no bearing on longevity for pay or years of service
  - Should never change: not adjusted for broken time or time lost
- Other services/OSD call date DIEMS

What's happening now?

- Personnel are retiring under High-1
  - DEAF date 7 Sep 1980 or earlier
- Personnel are retiring under High-3
  - DEAF date 8 Sep 1980 - 31 Jul 1986
- Personnel are hitting 15-year-of-service point and need to make irrevocable decision on CBS/REDUX or High-3
  - DEAF date 1 Aug 1986 or later
  - Aug 2006 will get first regular retirements

CSB / REDUX vice High-3

- Career Status Bonus/REDUX
  - $30,000 at 15 years of active duty and agree to complete 20 with MC approval
  - If retire at 20 yrs, ***40%*** of average base pay for highest 3 years
    - Extra *3.5% per year* for years after 20 (75% at 30)
    - COLA at CPI rate minus 1 percentage point
- High-3
  - If retire at 20 yrs, ***50%*** of average base pay for highest 3 years
    - Extra *2.5% per year* for years after 20 (75% at 30)
    - Full inflation protection (COLA at CPI)

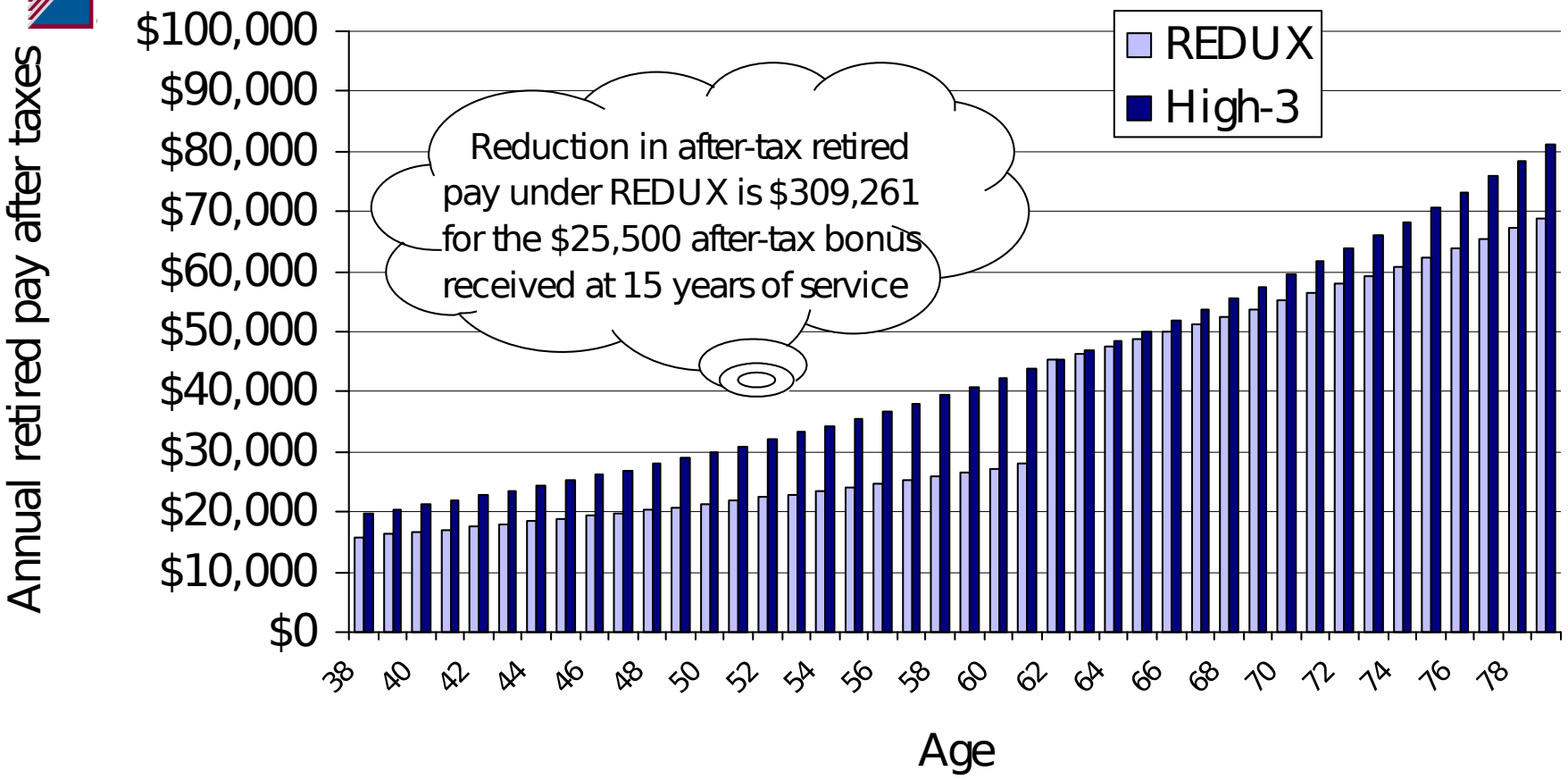
Retirements at 30 Years of Service

- Are CSB/Redux and High-3 pensions the same?
  - No
  - Less inflation protection in CSB/Redux
- How likely is a retirement at 30 years of service?
  - Not very likely
  - Less than 4% of enlisted retirements are at 30 years of service

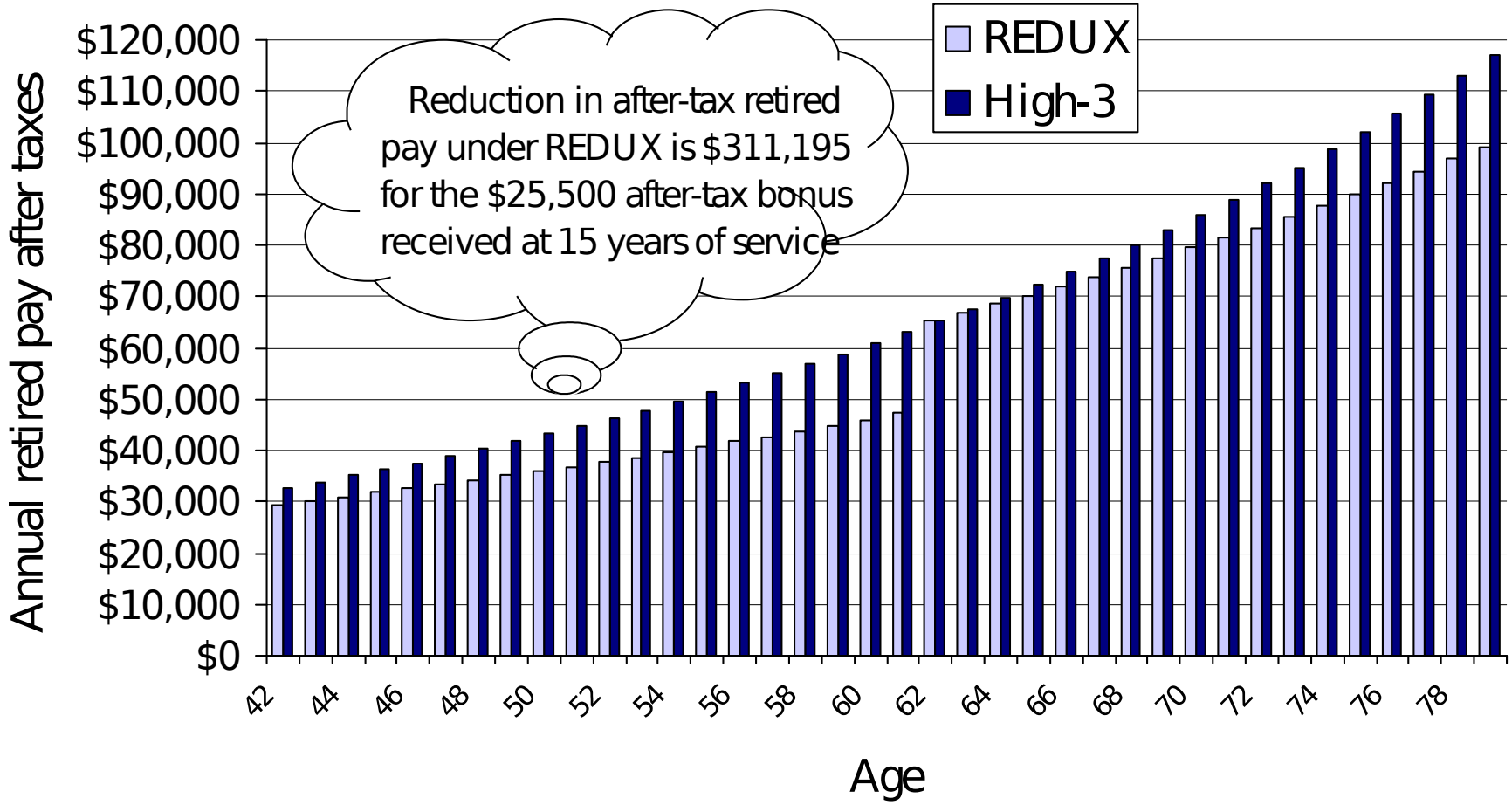
How much is retirement income reduced in the REDUX option?

- Assumptions
  - Military pay grows 3.5% per year until retirement
  - CPI grows 3.5% per year
  - Service member lives to age 79
  - Enlisted are in 15% tax bracket; officers in 28% tax bracket
- New Windows Desktop application
  - User can input own data and get answers

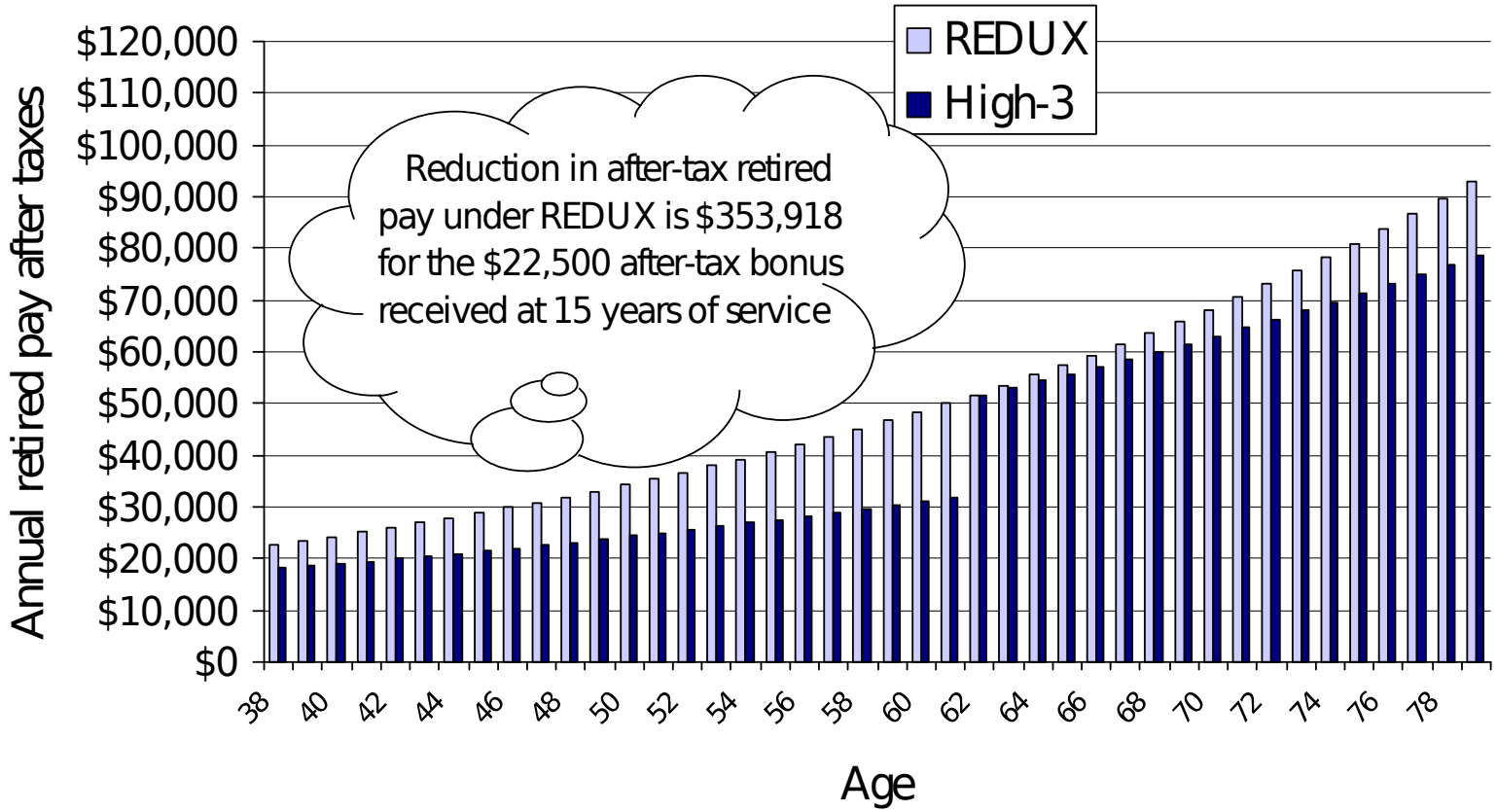
E-7 Retiring at age 38 with 20 Years



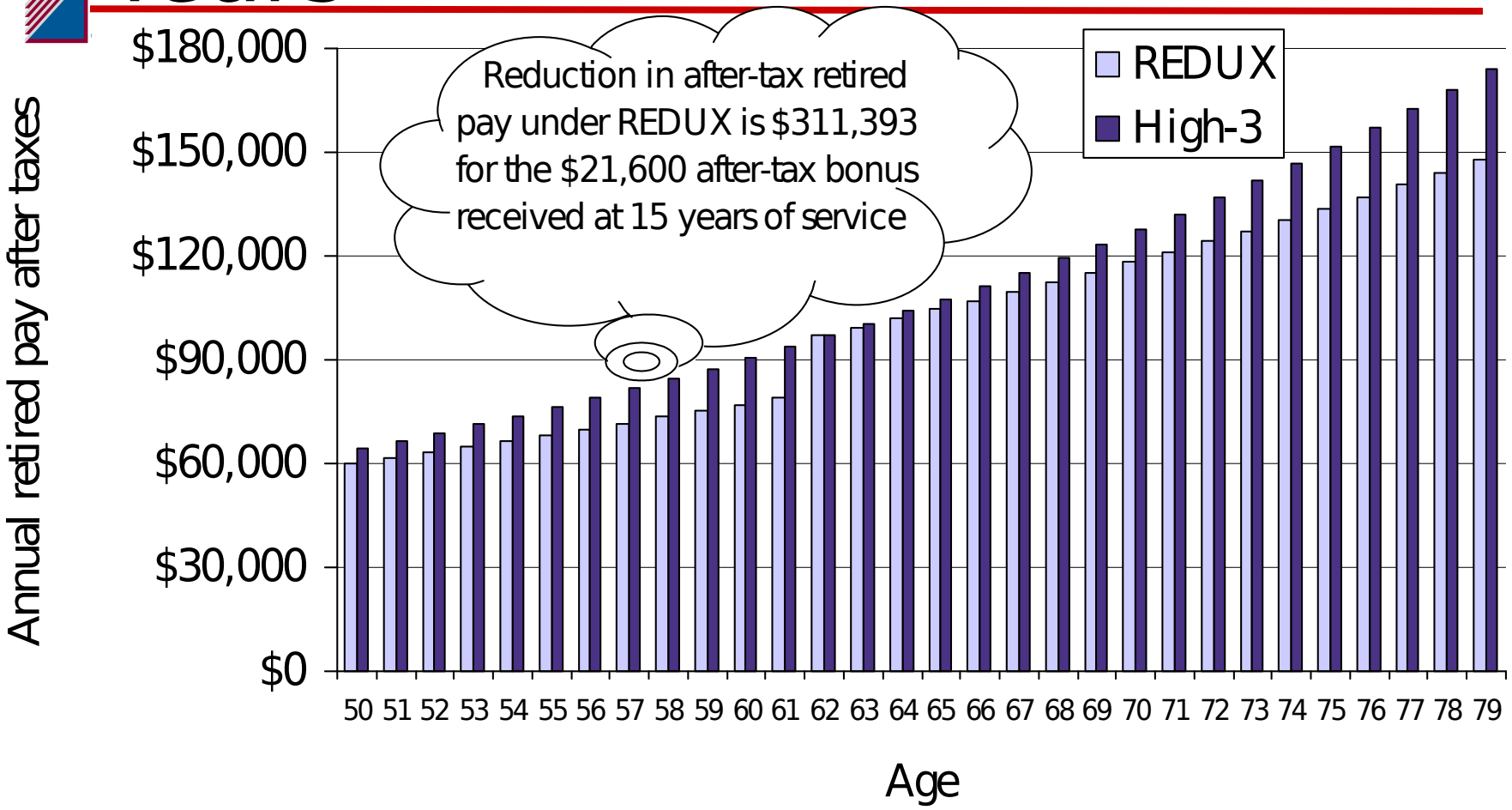
E-8 Retiring at 42 with 24 Years



CWO-3 Retiring at 38 with 20 Years



O-6 Retiring at 50 with 26 Years


Annual retired pay after taxes
$180,000
$150,000
$120,000
$90,000
$60,000
$30,000
$0
Reduction in after-tax retired pay under REDUX is $311,393 for the $21,600 after-tax bonus received at 15 years of service
REDUX
High-3
50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79
Age

Get paid now or get paid later: How do you compare?

- Consider this cash-out as a “loan” to be paid back by smaller, future retirement checks
  - Mortgages, car loans, credit card debt
  - Use an interest rate (APR) to describe transaction
- Peculiar repayment scheme
  - Pay nothing until retire; then pay back until death
  - Earlier figures illustrated repayment amounts

What is the APR for this "loan"?

- Retiring at 20 years of service, age 40
  - 11.7% for E-6s
  - 12.9% for E-7s
  - 13.7% for E-8s
  - 14.8% for E-9s
  - 15.0% for CWO-3s
  - 17.3% for O-4s (retirement age 42)
- Updated original 2001 paper for 2004 decisions

Repayment Amounts for the $30K

- Retiring at 20 years of service, age 40
  - $233,379 for E-6s
  - $272,229 E-7s
  - $303,804 for E-8s
  - $347,475 for E-9s
  - $353,918 for CWO-3s
  - $353,198 for O-4s (retirement age 42)
  - $391,391 for O-5s (retirement age 42)
- If live to 85 years, add another $100,000

How do the terms compare with a 30-year mortgage?

- $30,000 continuation bonus has
  - Higher interest rate or APR
  - Much larger repayment amounts
- Example of E-7 retiring at age 40 with 20 years of service
  - $30,000 bonus has APR of 12.9% and $272,229 repayment amount
  - $30,000 30-year mortgage has APR of 6.0% and repayment amount of $65,000

Why reject more generous High-3 and select Bonus/REDUX?

- Want money now
  - Car, boat, or house
  - Debt repayment
  - Won’t live past 60 and no spouse
- Think you can do better by investing money (TSP)

Investing the Bonus: Breakeven Rates of return

- What rate of return would you need to breakeven between CSB/Redux and High-3?
- Put bonus in investment and each year in retirement draw out exactly the difference between the CSB/Redux and High-3 pensions
  - Do this until age 79
  - At age 79 would have exhausted $ in account
- Note that Marine must obtain the breakeven rate of return for *every year* until age 79

Breakeven Rates of Return

- Retiring at 20 years of service, age 40
  - 14.1% for E-6s
  - 15.4% for E-7s
  - 16.5% for E-8s
  - 17.7% for E-9s
  - 20.2% for CWO-3s
  - 24.0% for O-4s (retirement age 42)
- These rates aren’t attainable

Thrift Savings Plan (TSP)

- Terrific vehicle for saving for older years
  - Tax-sheltered
  - Penalties if withdraw before age 59½
- But, cashing-out the ***tax-sheltered*** High-3 to put money in tax-sheltered TSP is bizarre
  - Even if you get the bonus tax free in combat zone
  - Need to earn much higher than normal returns *every* year to breakeven
  - Moreover, High-3 pension is inflation-protected and risk free

Take Rates for CSB/REDUX: March 2004

- Almost 4,000 Marines have made the irrevocable choice
- Take rates
  - 50% of enlisted
  - 40% of chief warrant officers
  - 13% of commissioned officers

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